Why The Internet Should Create Its Own Money

Abstract

Investment banks make billions of dollars, pounds, yen…by lending money, brokering and speculating. Most if not all the same transactions could be carried out by the major Internet companies at a fraction of the cost, and to the great financial benefit of these companies, their users, and the governments of the world.

Internet companies also create new wealth by the distribution to consumers at virtually no cost of on-line newspapers, e-books, videos, information services, etc. On account of this, the governments of the world should create new, debt-free money, and pay it direct to said Internet companies, who should distribute a percentage of it to their major contributors.

Why Does The World Need Banks When It Has Amazon, Facebook, Google, Yahoo!…?

Although its origins are lost to antiquity, modern banking originated with the goldsmiths. Initially, banking had two functions. At a time when liquid capital consisted mainly of coins, one was to allow merchants and others to transfer money over considerable distances conveniently. The second function was to act as a strongroom. For both of these services, the bankers charged fees; they also loaned money to third parties, and charged them interest for the privilege.

As time went on, and as it now exists, banks pay interest to people (including companies, etc) who deposit money with them. They also lend money, and charge interest for this service.

It is widely – and erroneously – believed, that banks pay their depositors X%, charge their borrowers X+Y%, and their profits consist of Y% less their overheads. In fact, this is not what happens at all. It is now widely accepted that when a bank lends money, and this money is deposited into another account, "new money" is created. Way back in the 1920s, the engineer Major Douglas demonstrated that what really happens is that every loan from a bank is a creation of new money, and that when this money returns to the issuing bank, it is cancelled out of existence. *But*, there remains the interest on this newly created money, which by the nature of the banking system is irredeemable. Without regular defaults, the creation of new, debt-free money, or both, the world will go progressively *in hoc* to the banking system as a whole.

In spite of decades of obfuscation, the process by which new money comes into existence is now the world's worst kept secret. A small amount, usually around 3% is minted and printed – the coin and note issue – but the bulk is created by the banking system, either by the mechanism of loans and the credit multiplier, or by the supposedly newly discovered process of quantitative easing, by which the central bank buys government bonds from commercial banks and other financial institutions creating new money – and new irredeemable debt.

It may be that some of this new money finds its way into the wider world, stimulating investment, production, and enabling consumers to spend, but the fact that it is created as a debt means there will at some point be a shortage of credit as the newly created money is returned to the banks with the interest added. This "discovery" is nothing new, as stated, Major Douglas worked it out in the 1920s. He also proposed an albeit complex solution, but there is a much simpler solution in the age of the Internet.

Firstly, let us be clear where the bulk of this newly created money actually goes; it does not go to businesses, to entrepreneurs and small traders, most of it goes into that unregulated (and misnamed) casino known as investment banking. Rather than investing this money, the banks speculate with it, ie they gamble. It is true they make more money, trading in shares, put options and other such devices, but all this is doing is shuffling paper about. Often this speculation leads to share prices rising, but the mere fact that the price of a company's shares rises does not actually create any real wealth. And what goes up, must, and will eventually, come down. There is in short no guarantee that the money created by quantitative easing will benefit the wider community. There is though a medium that does benefit the wider community: the government, corporations, small businesses, public bodies, churches etc, and individuals. That medium is the Internet, and it is here that the new money should be created.

Although the Internet has changed all our lives radically and for the most part, for the better, there are many people and more often companies who claim they lose money because of it, and this has led to all manner of legal battles over such things as copyright. The beauty of the Internet is that it is accessible to the entire world; the "bad news" for the producer, especially the publisher, is that once the product is on-line, the whole world can access it for free.

Let us consider one case, that of a book, or rather a series of seven books. The author J.K. Rowling has sold more than four hundred million copies of her *Harry Potter* series, and as of October 2008 she had earned around £170 million, which is good news for her. It is not clear how much of that money has come from the books, and how much from spin offs like merchandise, and most of all the films, but let us include the films as well.

Let us for argument's sake say she received a royalty of around 50p per book, which is near enough. Now, four hundred million books is a lot of paper, and a lot of trees. While it is true that chopping down trees, making paper, transporting it, etc, creates a lot of work for a lot of people, let us suppose that her books had been created using Microsoft WORD – like this dissertation – and that it had been published in cyberspace, and only in cyberspace, in PDF and also HTML format. Let us imagine too that when this happened, every person including every literate child in the world owned a personal computer – desktop, laptop, or one of those new-fangled devices.

Though it remains to be seen if a purely cyber-Harry Potter would have received such acclaim – how do you measure non-existent cyber-sales? – every person who read the book or series of books would be getting it for free. While that would certainly enrich them, it would also leave poor Miss Rowling with no material reward to show for her efforts, no sales for her publisher, for bookshops, and so on.

Though this particular author would have lost out on hundreds of millions of pounds if her books had been published and distributed purely or largely in cyberspace, the J.K. Rowlings of this world are few and far between, and if books, films, etc, and all manner of information continue to be distributed free through cyberspace (allowing for ISP charges, electricity bills, hardware, etc) then clearly the greater good is served. The one problem is that as with Miss Rowling, the profit has been removed from the creation and sales processes, but it need not be.

Over the past few years, in Britain at least, postal charges have risen quite steeply. The main reason for this appears to be that there has been a dramatic fall in the use of the post office, at least as far as ordinary letters are concerned. And, the main reason for this is the Internet, although other telecommunications media have also contributed. Personal, business, and even legal correspondence is now transacted instantaneously and at greatly reduced cost on-line. Unless there are exceptional circumstances, it simply does not make sense to send a letter when one can use e-mail. Because the postal service is used less frequently, the economies of scale are beginning to disappear, and the cost of sending a letter has risen.

The falling cost of sending (e-mail) letters, accessing information, etc, results in savings for companies, and savings should in theory at least lead to increased profits, but again, what an on-line newspaper saves in the price of correspondence, it more than loses in lost sales. The question has now to be asked, why should a publisher that distributes its on-line newspapers, books, etc, free to countless millions of people not be paid for the privilege? After all, it is generating new – cyber – wealth.

The same argument can be applied to the distribution of music, films, and anything else that can be transmitted on-line. The big question though is, if the publication is free, who pays? The answer is, or should be, the governments of the world.

Exactly how much money should be created and how it should be apportioned is a job for the mathematics department, but consider the following tree:

(1) Internet servers/web hosts/security/Internet hardware manufacturers.

(2) Major on-line services: FaceBook, Google, other e-mail providers, etc.

(3) Major websites: YouTube/MySpace/national and local government.

(4) Smaller websites: university websites, poker and other gaming sites, newspapers, smaller libraries.

There may be considerable overlap with many of the above; for example, YouTube is owned by Google, and some perhaps many universities may object to being designated smaller, and so on. The key point to remember is that money should be created at the top – as decided by the governments concerned – and distributed from the top down.

Internet servers and web hosts should retain a percentage, and distribute the remainder to their downline. With over half a billion users, FaceBook might be considered a special case; overall, size, user base and bandwith should be the determinants of revenue creation. The Facebooks and Googles of this world should be able to calculate and distribute their own money, subject to government, or perhaps international, supervision.

Payments made to local government websites could be used to defray such things as local taxation; news websites including on-line newspapers would be entitled to enhanced shares to reflect not only the effort put into creating them, but the generally transient value of most of their output. Music companies, bands and individual artists, would be alloted an income share based on an estimate of "true" record sales, while right at the very bottom, individuals whose YouTube videos generate a lot of hits, would be paid the smallest amounts.

The Death Of Copyright?

Perhaps the biggest perennial contentious issue generated by the Internet is that of copyright, in particular so-called copyright theft and outright piracy. YouTube in particular is forever removing videos – sports videos are a big favourite. Typically, following a big pay-per-view boxing match or some other such sporting event, people will upload the video, and within hours if not minutes, it will have been removed. The same thing happens with films, and also with music, although there appears to be no rhyme nor reason concerning which films or songs are removed. While unlike prostitution, copyright theft is not a victimless crime, the problem with the Internet – if it is a problem – is that new copies are generally every bit as good as the original.

In the non-cyber world, a fake Rolex watch is not the same as the real thing, even though it may keep time just as good. In the non-cyber world, a pirated designer handbag or designer outfit is probably not as good as the original, but once music or a video is uploaded, the download is not only available to everyone, but is just as good as the upload.

While the author of a particular work, be it a book, a song, a software program or whatever, should still be entitled to be credited as the author, the fight against on-line piracy – or whatever you want to call it – has long since passed the point of diminishing returns. As a corollary to Internet credit creation, copyright owners should be compensated with newly created Internet money for the unauthorised use of their works.

A Final Word Re Banking

In November 2009, I suggested in *Why We Don't Need Banks* that the majority of these perfidious institutions could be done away with. To take this one stage further, Internet-created money could be combined with Internet banking to produce an entirely new financial phenomenon. The big websites, in particular Amazon, Facebook, Google, Yahoo! …could set up banking arms that would allow large companies to lend and borrow money – real money as opposed to created credit – matching borrowers with lenders, and investors with willing partners. They could also set up share trading arms that would allow ordinary people as much as investors to buy and sell shares for a fraction of the cost currently associated with share trading. Indeed, the same principle could be extended to trading in any real world commodity including precious metals, with the caveat that there would always have to be a precise correlation between buyer and seller, in other words, the Internet must not be permitted simply to become an extension of the current banking system, creating and selling credit; digital currency has been mooted as the solution to this. Although the Internet operates in the virtual world, the money it trades must at all times be real. If this principle had been adopted from the origins of banking, the world would not today be literally drowning in debt.